

## DECISION MEMORANDUM

**TO:** COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSIONER KEMPTON  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** SCOTT WOODBURY  
DEPUTY ATTORNEY GENERAL

**DATE:** NOVEMBER 21, 2008

**SUBJECT:** CASE NO. GNR-E-08-02 (Idaho Power, PacifiCorp, Avista)  
JOINT PETITION FOR APPROVAL OF STIPULATION CHANGING  
NON-FUEL RELATED SAR COSTS

On November 5, 2008, a joint Petition was filed by Idaho Power Company (Idaho Power) on behalf of itself, the Staff of the Idaho Public Utilities Commission (Staff), Avista Corporation (Avista), PacifiCorp (PacifiCorp), U.S. Geothermal, Inc. (U.S. Geothermal), Exergy Development Group of Idaho LLC (Exergy), Tuana Springs Energy LLC (Tuana), and Idaho Windfarms LLC (IWF), collectively Petitioners seek Commission approval of a Stipulation proposing changes in non-fuel related SAR costs and request modification of published avoided cost rates.

### **Background**

On September 10, 2007, Idaho Power filed a Petition with the Idaho Public Utilities Commission (Commission) to modify the methodology for determining fuel costs used to establish published rates for PURPA qualifying facilities (QFs). On December 28, 2007, the Commission, in Order No. 30480, stated as follows:

. . . we find it reasonable, based on the written record developed in this case, to adopt Staff's proposed change for calculating the fuel cost component and published avoided cost rates. We further find that the proposed change in the methodology to calculate the fuel cost component and published avoided cost rates can be made independently (and in advance) of a review of the entire list of non-fuel methodology variables.

The Commission agrees that a periodic review of the other methodology variables is advisable, and accepts and encourages Idaho Power's offer to conduct a 2008 workshop to review the other non-fuel methodology variables. We also deem it advisable that PacifiCorp and Avista participate. We direct the Company to report its workshop findings to the Commission.

Order No. 30480, p. 11.

In accordance with Order No. 30480, Idaho Power hosted workshops on April 4, 2008, and July 23, 2008. At the conclusion of the July 23 workshop, the participants agreed to continue their discussions by e-mail with the goal of reaching a consensus on changes that should be made to the non-fuel related costs of the SAR.

Non-fuel variables consist of two general categories – utility-specific variables and generic variables. Utility-specific variables relate to each utility's cost of capital. Because they are a direct outcome of general rate cases, the Petitioners agree that they are not an issue in this case. Generic variables relate to the Surrogate Avoided Resource (SAR), whose costs set the basis from which Idaho's published avoided costs rates are determined. Adjustment of the non-fuel related generic variables is the subject of this case and the Stipulation.

As a result of their continuing settlement discussions, the Petitioners have agreed on interim values which are derived from using a "base year" of 2008 in the model for the non-fuel related costs of the SAR. Those values are depicted below and are set out in Paragraph 4 of the Stipulation:

<b>Non-Fuel Related SAR Costs</b>	<b>Current</b>	<b>Proposed</b>
Heat Rate	7,100	7,100
Equivalent Availability Factor	92%	86.5%
Capital Cost	\$802/kW	\$1,100/kW
Variable O&M	\$3.47/MWh	\$3.86/MWh
O&M Escalation Rate	2.7%	2.0%
SAR Escalation Rate	2.1%	1.4%
Fixed O&M	\$13.24	\$14.71
General Inflation	2.7%	2.0%

Published avoided cost rates are adjusted as new fuel-related SAR values become available from the Northwest Power and Conservation Council (Council) or the Council's general advisory committees. A new Council forecast is anticipated in early December 2008. Petitioners recommend that the non-fuel related values of published rates be implemented at the same time the Commission approves new fuel-related avoided cost components based on the

Council's median forecast of natural gas prices. This will allow the Commission to make a single avoided cost rate change.

### **COMMISSION DECISION**

Presented for Commission approval is a Stipulation and proposed changes in non-fuel related SAR costs. Staff recommends that a Notice of Petition be issued and that the case be processed pursuant to Modified Procedure, i.e., by written comment rather than by hearing. IDAPA 31.01.01.201-204. Does the Commission agree with the recommended procedure?

A handwritten signature in black ink, appearing to read "Scott Woodbury", written over a horizontal line.

Scott Woodbury  
Deputy Attorney General

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